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Bruce K. Cox  
Government Affairs Vice President

Suite 1000  
1120 20th Street, N.W.  
Washington, DC 20036  
202 457-3686  
FAX 202 457-2267  
bkcox@attmail.com

February 19, 1998

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Magalie Roman Salas, Secretary  
Federal Communications Commission  
445 Twelfth Street, SW Room TWB-204  
Washington, D.C. 20554

Re: Notice of Ex Parte meeting: In the matter of Access Charge reform, CC  
Docket No. 96-262; Price Cap Performance Review for LECs, CC Docket No. 94-  
1; MCI Telecommunication Corp. Emergency Petition for Prescription, CC  
Docket No. 97-250; 96-45 Federal State Joint Board on Universal Service; and  
Consumer Federation of America Petition for Rulemaking, RM-9210.

Dear Ms. Salas:

On Thursday, February 18, 1998, Leonard Cali, Joel Lubin, and I met with Lawrence Strickling, Chief of the Common Carrier Bureau, Jane Jackson, Chief of the Competitive Pricing Division, Donald Stockdale, Associate Bureau Chief, and Katherine Schroeder, Legal Counsel of the Bureau Chief, concerning matters related to the referenced proceedings. We discussed the arguments reflected in AT&T's filings in these proceedings concerning access reform and LEC pricing flexibility. The written presentation used at the meeting is attached.

Two copies of this Notice are being submitted to the Secretary of the Commission in accordance with Section 1.1206(a)(2) of the Commission's rules.

Sincerely,

*Bruce K. Cox*

Attachment  
cc:

Lawrence Strickling  
Jane Jackson  
Donald Stockdale  
Katherine Schroeder

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

***Access Charge Reform  
for  
Local Exchange Carriers***

# ***Access Reform***

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## ***AT&T's position....***

- Competition robust enough to drive down access rates has not developed anywhere in the nation, and the ILECs continue to price at the upper limit in every basket
- The FCC's market-based approach to access reform is not working
- Access charges must be reduced to cost before RBOC 271 entry

# ***Access Reform***

## ***Update and Refresh Record***

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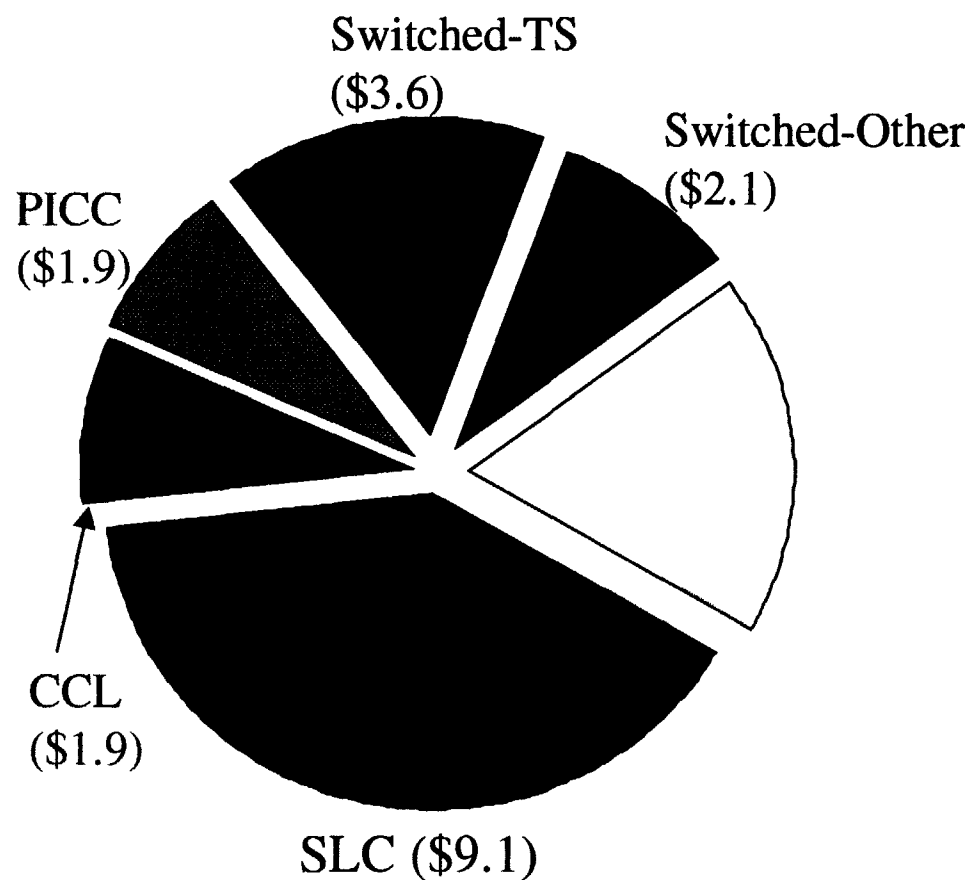
### *AT&T's position continued....*

- The FCC should prescribe that Access rates be set at Economic Cost using FLEC principles
- The FCC should increase the X-Factor to reflect interstate only data, rather than total company productivity data

# ***Access Cost By Major Categories***

## ***-- All Price Cap Companies***

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In Billions (\$)

- SLC \$ 9.1
- CCL \$ 1.9
- PICC \$ 1.9
- Switched-TS \$ 3.6
- Switched-Other \$ 2.1

***Total All Companies \$22.8***

# ***Price Cap Companies***

***(Rate of Return by Basket)***

***(1997 - Base Year)***

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	<b>Common Line Basket</b>	<b>Switching Basket</b>	<b>Trunking Basket</b>	<b>Total</b>
<b>Price Cap LECs</b>	8.88%	45.16%	15.29%*	15.09%*

**\*If Special Access is removed the Rate of Return would be higher.**

# ***Price Cap Regulation-- Reinitialization of Interstate X-Factors***

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<b>Reinitialize to:</b>	<b>Current X=6.50%</b>	<b>Reinitialize to 8.40%</b>	<b>Reinitialize to 9.30%</b>	<b>Reinitialize to 10.20%</b>
<b>July 1998</b>	N/A	(\$442)	(\$651)	(\$860)
<b>July 1997</b>	N/A	(\$886)	(\$1298)	(\$1765)
<b>July 1996</b>	N/A	(\$1320)	(\$1947)	(\$2565)
<b>July 1995</b>	(\$370)	(\$2029)	(\$2952)	(\$3781)

# ***Impact of Lowering the Switching Basket to a lower Rate of Return is:***

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*Switching*

*Basket ROR*

*Access Reduction*

45.16%\*

\$0.00

11.25%

\$2.04B

10.00%

\$2.11B

9.50%

\$2.14B

\* Equals the Switching Basket ROR for 1997



# ***Industry Contribution Analysis***

## ***Non-Rural Only***

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<b><i>Contribution from SLC</i></b>					
Company	1998 Switched Lines (Thousands)	25% of Hatfield Loop & Port	Composite SLC Rate (as of 1-1-99)	<b><i>Contribution from SLC</i></b>	
				Per Line Per Month (\$)	Annualized (\$ Millions)
<b>Total RBOCs</b>	<b>130,779</b>	<b>\$3.19</b>	<b>\$4.86</b>	<b>\$1.67</b>	<b>\$2,616</b>
<b>All Price Caps</b>	<b>162,302</b>	<b>\$3.41</b>	<b>\$4.83</b>	<b>\$1.42</b>	<b>\$2,771</b>

# ***Industry Contribution Analysis -- Price Cap ILECs Only***

## ***Contribution from Interstate Switched Access Carrier Rates***

<b>Company</b>	<b>1988 Total Estimated Switched AMOU (Millions)</b>	<b><u>Switched Access per AMOU</u></b>		<b><u>Contribution from Access</u></b>	
		<b>Economic Cost* (Blended HAI)</b>	<b>ILEC Rates** (as of 1/1/99)</b>	<b>Per Access Minute***</b>	<b>Annualized Total (\$M)***</b>
<b>Total All Price Cap</b>	<b>510,770</b>	<b>0.00305</b>	<b>0.01586</b>	<b>0.01281</b>	<b>6,545</b>
<b>Plus PICC Charges</b>					<b>1,865</b>
<b>Less USF Flowback</b>					<b>791</b>
<b>Total Contribution with PICC and without Flowback</b>					<b>7,619</b>

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**The ILEC's USF assessment (obligation), should be removed from Interstate Carrier Access charges. This would reduce carrier access charges by over \$800M.**

**ILECs should recover this obligation directly from their end user (retail) customers.**

## ***Access Reduction***

### ***Interstate Non-Rural***

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**If the current Mutual Compensation Rates\* are used as a Proxy for Interstate Access Cost/Prices, we estimate this would still produce a reduction of over \$5B in interstate switched access cost.**

**\* Mutual Compensation rates for Ameritech, Bell Atlantic (Excluding Nynex), BellSouth, Pactel are .544¢, .439¢, .412¢, .373¢ per minute, respectively.**

## ***Conclusion...***

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**There are no implicit subsidies in Interstate Access Charges which support USF for Non-Rural LECs.**

**These monopoly access profits result from:**

- 1. Excess earnings measured against their current cost of capital and current investment on the books**
- 2. Investment on their current books is overstated based upon recent FCC audits.**
- 3. Misallocated costs between regulated versus unregulated services.**
- 4. Investments in international ventures**
- 5. Misallocation of cost between retail versus carrier to carrier service.**
- 6. Excess/Inefficient Plant.**